



City of Santa Barbara
Airport Department

DATE: October 20, 2010
TO: Airport Commission
FROM: Karen Ramsdell, Airport Director
SUBJECT: Proposed Airline Rates and Charges

RECOMMENDATION: That Commission recommend that City Council approve the proposed airline rates and charges for October 1, 2010 – June 30, 2011 of \$80 per square foot per year for the airline terminal building, and landing fees of \$2.50 per thousand pounds of gross landed weight.

DISCUSSION:

Background

The airlines serving Santa Barbara operate under annual Operating Permits rather than Lease Agreements. The Operating Permit establishes rental rates for airline terminal space, landing fees, and addresses security and operational requirements. Historically, rates are adjusted based on actual operational expenditures from the prior year.

Due to the economic downturn, Airport Commission at the September 2009 regular meeting approved maintaining the building rental rate and landing fees for the air carriers at the 2007 levels of \$66.81 for building space and landing fees at \$1.98 per thousand pounds gross landed weight. In addition, the airlines have paid a daily parking fee for employee parking of \$3.47.

Status of Airline Industry

In late 2007 and most of 2008, volatile fuel costs created huge deficits for the airline industry. With the economic crisis in 2008, the airlines continued earnest efforts to reduce capacity, removing low performing routes and grounding obsolete aircraft. Continuing the move toward profitability, several air carrier mergers have taken place: Delta/Northwest Airlines; U S Air/America West Airlines; Midwest/Frontier Airlines; and recently United/Continental Airlines.

With all these changes, it was essential that staff focus on maintaining air service for Santa Barbara, and, as a result, the airline rates and charges were held to 2007 levels.

SBA Air Service Changes

As the airline industry seeks profitability, air service nationwide and at Santa Barbara continues to be impacted. In calendar year 2010, Santa Barbara's seat capacity has been reduced by 9.6% from prior year. In 2008, six air carriers served 12 non-stop destinations. Currently there are 5 non-stop destinations with service from five airlines.

Though Delta routes and air service were lost, the Airport also had a new carrier begin service in June. Frontier Airlines has two flights per day to Denver using an E-190 aircraft. The flight schedule for all existing airlines for the fall quarter appears stable.

Partial Year Operating Permits

It is anticipated that the new Airline Terminal Building will be open and operational in Spring of 2011. With this in mind, a partial year Operating Permit is proposed for the period October 1, 2010 to June 30, 2011. This agreement will utilize the historic rate making methodology.

For fiscal year 2012, the Operating Permit will continue but the rate making methodology will change to a new hybrid cost center approach. A separate report on 2012 rates will be provided to Airport Commission at a later date.

Proposed Airline Rates and Charges

The Airport has strived to maintain a low-cost fee structure for the airlines. Rates and charges have been established that reflect actual prior year maintenance and operational costs. The rate calculation reflects actual expenditures including reductions in labor costs due to the 5% furlough for Fiscal Year 2010 and the reimbursement received from the Transportation Security Administration for Airport Patrol officer staffing at the security check points. The proposed airline terminal building rate for October 1, 2010 is \$80 per square foot.

The landing fee calculation is also based upon actual airfield costs allocated by commercial and general aviation use percentages. The proposed landing fee for October 1, 2010 is \$2.50 per thousand pounds of gross landed weight. The landed weight included in the calculation reflects the loss of Salt Lake City, San Jose, Sacramento, and two flights to Los Angeles.

In 2008, the cost of the employee shuttle allocated to the airline employees was removed from the building rental calculation of \$3.47/day and was assigned to each airline based on the number of employees. This resulted in a decrease in the square footage rate, but provided an offset for the shuttle expense. This rate has also been adjusted to reflect actual costs and is proposed at \$3.54/day.

The Financial Feasibility Report prepared by Jacobs Consultancy which was an exhibit to the Official Statement for the bond issue, maintained the airline rates and charges through fiscal year 2010, but included increased rates in FY 2011 due to the completion of the new Airline Terminal building and the additional debt service requirement.

Airline Negotiations

On August 26, 2010, staff met with representatives from SkyWest (United), US Air, and American Eagle and discussed the need for a short-term agreement for the balance of this fiscal year and to begin discussions on the new rate methodology for the new facility.

The airline properties representatives elected SkyWest Airlines' Manager of Airport Affairs as the lead negotiator and ask that he continue the discussions with the Airport on behalf of the airlines. The Airline Representative and Airport staff negotiated an airline terminal building space rental rate of \$80 per square foot per year and a new landing fee of \$2.50 per thousand pounds of gross landed weight.

Lease Review Subcommittee

The Lease Review Subcommittee met on September 27, 2010, and reviewed the proposed airline rates and charges report and concurred with the methodology and rates.